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ACTION EAP-00

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FM AMEMBASSY HANOI
TO SECSTATE WASHDC IMMEDIATE 6147

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FOR DEPUTY ASSISTANT SECRETARY HUHTULA FROM THE AMBASSADOR

STATE FOR EAP/BCLTV

E.O. 12958: N/A

TAGS: [EAID](#) [PREL](#) [VM](#)

SUBJECT: OFFICIAL-INFORMAL: VIETNAM ASSISTANCE LEVELS

1. I understand that USAID's ANE Bureau is now considering ways to take funds from USAID's FY 05 and FY 06 operating budget to put them into emergency assistance for the tsunami disaster. We fully support the need to reallocate funding for this tragedy. But while hard choices are inevitable, the proposed reallocation seems extremely hard on Vietnam, which already operates on a relatively low budget. It is one thing to take one million USD from a country with an operating budget of USD 75 million, but quite another to take a 22 percent cut from a modest program like that of Vietnam. Such a sharp reduction of DA funds for Vietnam would be particularly harmful to the basic sustainability of the overall program and would adversely impact our ability to implement our Mission Performance Plan (MPP).

2. The proposed reallocations for Vietnam in FY 05 and FY 06 come from the Development Assistance (DA) account with the funds for the President's Emergency Plan for HIV/AIDS remaining untouched. Under the proposed approach, our FY 05 operating budget DA amount baseline of USD 4.5 million will be cut by USD 500,000; then in future years, the baseline drops to USD four million. However, after another large contribution for tsunami relief, the revised FY 06 level then falls to just over USD 3 million. This amounts to a 22 percent reduction in total DA over a two-year period.

3. Two other factors make this cut even more difficult. First, as you know, last week the USD 2 million in ESF funds for FY 06 were zeroed out. Second, the USAID program in Vietnam is staffed by Personal Services Contractors and is a "virtual" mission. As a result, all USAID operational costs in Vietnam come "off the top" out of program funds, including DA funds. The result is that the amount of funds available for programs becomes even less significant.

4. The impact of such a large cut from such a low base is profound. Any of the new planned, albeit modest, initiatives to promote economic growth cannot begin. More importantly, it will be impossible to extend USAID's highly successful program of economic growth activities in Vietnam at even their current modest levels. Two projects support Vietnam's aggressive transition to a full market economy. Both you and EB PDAS Donnelly recently met the senior Vietnamese delegation supporting the highly successful Support for Trade Acceleration (STAR) project in Washington. The donor community and the Vietnamese Government consider this initiative to be the most influential and relevant donor project furthering Vietnam's transition to a market economy. STAR has been very helpful to U.S. national interests in developing a broad-based economic relationship and remains a key instrument for achieving many of our key MPP objectives. USAID was planning to extend that project from December 2005 to December 2006, but with these funding reductions in FY 05 and FY 06, we would have to cut back either the level of effort or length of that extension, perhaps both. In my view, that would be contrary to our own interests.

5. You may already be deeply engaged in sorting through EAP's competing equities over how to fund the tsunami relief effort. If so, I apologize for complicating your difficult task. If not, I urge EAP to get involved in these budgetary discussions with USAID and press our case as vigorously as possible.

MARINE

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